02

CHAPTER

Fiscal Developments

"In the happiness of his subjects lies his happiness; in their welfare his welfare; whatever pleases himself he shall not consider as good, but whatever pleases his subjects he shall consider as good. Hence the king shall ever be active and discharge his duties; the root of wealth is activity, and of evil its reverse."

-**Kautilya's Arthasastra, Chapter XIX, 'The Duties of a King' in Book I, 'Concerning Discipline'.**

Tabled in the backdrop of an optimistic global scenario of the investment and trade cycle, Budget 2018-19 reiterated the objective of fiscal consolidation with introduction of a new fiscal targeting framework. Revenue augmentation and expenditure reprioritisation and rationalisation continue to be integral to fiscal reforms. Broadening and deepening the direct tax base and stabilisation of Goods and Services tax are the other priorities. Over the last six years, budgetary expenditure of the Central Government, as per cent of GDP, has seen considerable moderation with most of the reduction in the revenue expenditure. Total expenditure fell by 0.3 percentage points in 2018-19 PA (Provisional Actuals) over 2017-18, with 0.4 percentage points reduction in revenue expenditure and 0.1 percentage points increase in capital expenditure. Within revenue expenditure, major subsidies comprising food, fertiliser and petroleum continued their downward trend and have further declined by 0.1 percentage point of GDP in 2018-19 PA over 2017-18. Improving the quality of expenditure remains the key priority. Meeting allocational requirements without diversion from the newly revised fiscal glide path remains the foremost challenge.

2.1 Budget 2018-19 was presented in the backdrop of upswing in global investment and trade in the second half of 2017. The global growth was expected to continue its momentum in 2018. Despite several headwinds, Indian economy is expected to grow at 6.8 per cent (as per provisional estimates released by Central Statistics Office) in 2018-19 while maintaining macro-economic stability. The growth with macro-stability stems mainly from ongoing structural reform, fiscal discipline, efficient delivery of services and financial inclusion.

2.2 The Budget 2018-19 affirmed Government's intent on fiscal consolidation. It aimed to revert to the path of fiscal rectitude after the temporary blip in 2018-19. The new

fiscal targeting framework was adopted, which rests on twin pillars of reducing debt and fiscal deficit. The revised fiscal glide path envisaged achieving fiscal deficit of 3 per cent of GDP by FY 2020-21 and Central Government debt to 40 per cent of GDP by 2024-25.

2.3 The Medium Term Fiscal Policy (MTFP) Statement presented alongwith the Union Budget 2018-19 revised the fiscal deficit target for 2017-18, as percent of GDP, by 0.3 percentage point from 3.2 per cent to 3.5 percent, owing to spill-over impact of the new indirect tax regime. It aimed to reach the fiscal deficit target of 3.3 per cent of GDP in 2018-19 BE, with projections for 2019-20 and 2020-21 at 3.1 per cent and 3.0 per cent, respectively.The debt-GDP ratio of Central Government was projected at 48.8 per cent at end-March 2019. It is targeted to decline to 46.7 per cent by end-March 2020 and 44.6 per cent by end-March 2021, restoring the long-term trend of decline in the debt to GDP ratio. The FY 2018-19 has ended with fiscal deficit at 3.4 per cent of GDP and debt to GDP ratio of 44.5 per cent (Provisional).

2.4 This chapter reviews the fiscal developments in India during the year 2018-19. It is organised in four sections: Central Government finances, State finances, General Government, and outlook for 2019-20.

CENTRAL GOVERNMENT FINANCES

2.5 Fiscal consolidation entails revenue augmentation and expenditure rationalisation. In the post-Fiscal Responsibility and Budget Management Act (FRBMA) period from 2004-05 to 2007-08, significant fiscal consolidation could be achieved largely due to buoyant tax revenues with net tax revenue to the Centre increasing by 1.9 percentage points of GDP. As part of the strategy to revive growth post the Global financial crisis, fiscal consolidation was paused, which manifested in tax concessions and higher public expenditure. However, after 2011-12, there have been gradual, but consistent, efforts towards fiscal consolidation.

2.6 Major fiscal indicators of the Central Government are indicated in Table 1. The salient changes in the Central Government finances evident from Table 1 include improvement in the tax to GDP ratio, significant consolidation of revenue expenditure and gradual tilt towards capital spending over the years. These have led to progressive reduction in primary and fiscal deficits.

Table 1: Central Government's Fiscal Parameters

Items	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 BE	2018-19 RE	2018-19 PA
								(in ₹ lakh crore)
Revenue Receipts	10.15	11.01	11.95	13.74	14.35	17.26	17.30	15.63
Gross Tax Revenue	11.39	12.45	14.56	17.16	19.19	22.71	22.48	20.80
Net tax revenue	8.16	9.04	9.44	11.01	12.42	14.81	14.84	13.17
Non-tax revenue	1.99	1.98	2.51	2.73	1.93	2.45	2.45	2.46
Non-debt capital receipts*	0.42	0.51	0.63	0.65	1.16	0.92	0.93	1.03
Non-debt receipts	10.57	11.53	12.58	14.40	15.51	18.18	18.23	16.66
Total Expenditure	15.59	16.64	17.91	19.75	21.42	24.42	24.57	23.11
Revenue Expenditure	13.72	14.67	15.38	16.91	18.79	21.42	21.41	20.08
Capital Expenditure	1.88	1.97	2.53	2.85	2.63	3.00	3.17	3.03

Fiscal Deficit	5.03	5.11	5.33	5.36	5.91	6.24	6.34	6.45
Revenue Deficit	3.57	3.66	3.43	3.16	4.44	4.16	4.11	4.45
Primary Deficit	1.29	1.08	0.91	0.55	0.62	0.48	0.47	0.63
Memo Item								
GDP at market price	112.34	124.68	137.72	153.62	170.95	187.22	188.41	190.10
				(as per cent of GDP)				
Revenue Receipts	9.0	8.8	8.7	8.9	8.4	9.2	9.2	8.2
Gross Tax Revenue	10.1	10.0	10.6	11.2	11.2	12.1	11.9	10.9
Net tax revenue	7.3	7.2	6.9	7.2	7.3	7.9	7.9	6.9
Non-tax revenue	1.8	1.6	1.8	1.8	1.1	1.3	1.3	1.3
Non-debt capital receipts*	0.4	0.4	0.5	0.4	0.7	0.5	0.5	0.5
Non-debt receipts	9.4	9.2	9.1	9.4	9.1	9.7	9.7	8.8
Total Expenditure	13.9	13.3	13.0	12.9	12.5	13.0	13.0	12.2
Revenue Expenditure	12.2	11.8	11.2	11.0	11.0	11.4	11.4	10.6
Capital Expenditure	1.7	1.6	1.8	1.9	1.5	1.6	1.7	1.6
Fiscal Deficit	4.5	4.1	3.9	3.5	3.5	3.3	3.4	3.4
Revenue Deficit	3.2	2.9	2.5	2.1	2.6	2.2	2.2	2.3
Primary Deficit	1.1	0.9	0.7	0.4	0.4	0.3	0.2	0.3

Source: Union Budget Documents & CGA
BE: Budget Estimate, RE: Revised Estimate (as per Interim Budget), PA: Provisional Actuals
*includes disinvestment proceeds

2.7 The growth rates of fiscal indicators are presented in Table 2. The growth in non-tax revenue and capital expenditure in 2018-19 PA is considerable. In fact, the growth in both these variables in 2018-19 PA reverses the reduction in both variables in 2017-18.

Table 2: Growth Rate of Central Government's Fiscal Indicators (in per cent)

Items	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 BE#	2018-19 RE#	2018-19 PA#
Revenue Receipts	15.4	8.5	8.5	15.0	4.4	20.2	20.5	8.9
Gross Tax Revenue	9.9	9.3	16.9	17.9	11.8	18.4	17.2	8.4
Net tax revenue	10.0	10.8	4.4	16.7	12.8	19.2	19.5	6.0
Non-tax revenue	44.8	-0.5	27.0	8.6	-29.4	27.2	27.3	27.7
Non-debt capital receipts*	2.2	23.0	22.3	3.8	77.0	-20.3	-19.5	-11.1
Non-debt receipts	14.8	9.1	9.1	14.4	7.7	17.2	17.5	7.4
Total Expenditure	10.6	6.7	7.6	10.3	8.4	14.0	14.7	7.9
Revenue Expenditure	10.3	6.9	4.8	9.9	11.1	14.0	13.9	6.9
Capital Expenditure	12.5	4.8	28.6	12.5	-7.5	14.2	20.3	15.1

Source: Union Budget Documents & CGA
BE: Budget Estimates, RE: Revised Estimates (as per Interim Budget), PA: Provisional Actuals
*includes disinvestment proceeds
growth over 2017-18

Trends in Receipts

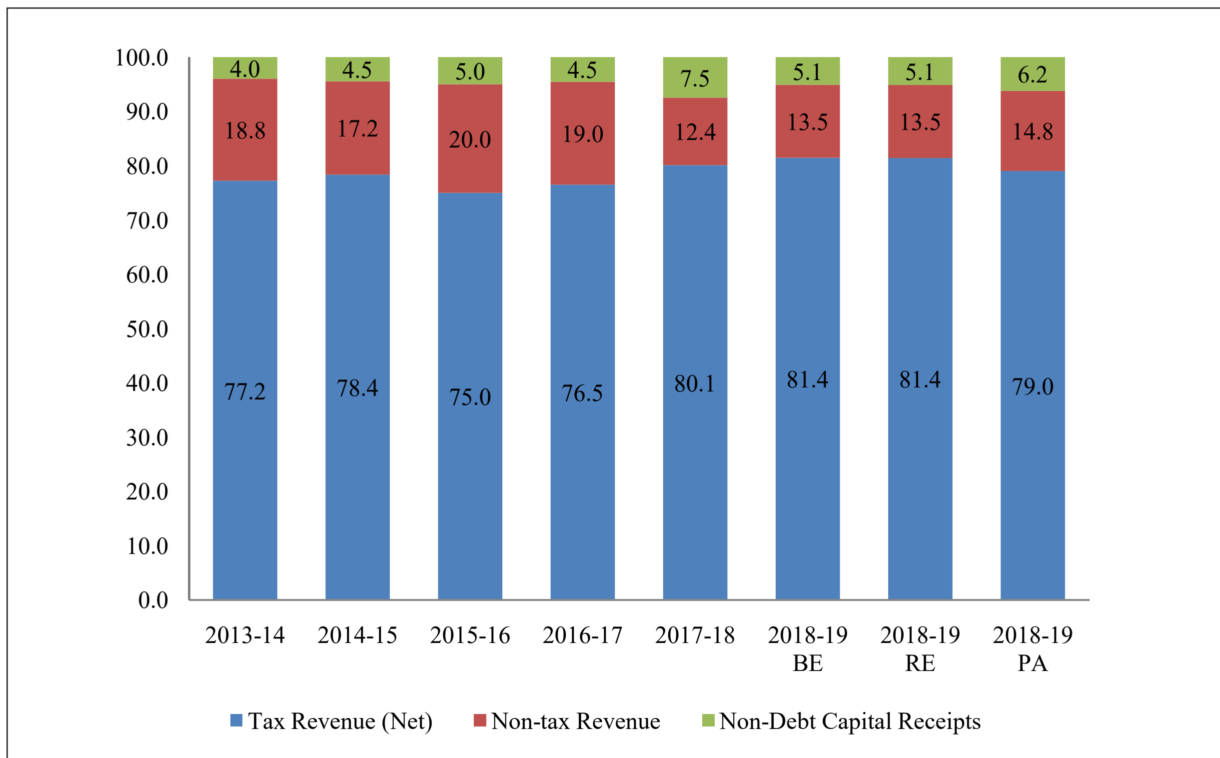
2.8 Central government receipts can broadly be divided into non-debt and debt receipts. The non-debt receipts comprise of tax revenue, non-tax revenue, recovery of loans, and disinvestment receipts. Debt receipts mostly consist of market borrowings and other liabilities, which the government is obliged to repay in the future. The Budget 2018-19 targeted significantly high growth in non-debt receipts of the Central Government, which was driven by robust growth in net tax revenue and non-tax revenue (refer to Table 2). The outcome as reflected in the Provisional Actual figures is lower than the budget estimate owing to reduction in the net tax revenue. This is also evident from the composition of non-debt receipts plotted in Figure 1.

Tax Revenue

2.9 Budget 2018-19 envisaged a growth of 16.7 per cent in gross tax revenue (GTR) over the revised estimates (RE) of 2017-18. GTR was estimated at ₹22.7 lakh crore for BE 2018-19, which was 12.1 per cent of the GDP. The growth in GTR was estimated to be led by 17.3 per cent growth in indirect taxes and 14.4 per cent growth in direct taxes over the revised estimates of 2017-18. Broadly, 51 per cent of GTR was estimated to accrue from direct taxes and the remaining 49 per cent from indirect taxes. The contribution of different taxes in GTR for 2018-19 BE and 2018-19 PA is shown in Figure 2.

2.10 As per Provisional Actual figures released by the Controller General of Accounts for FY 2018-19, the growth in GTR in 2018-19 has been lower than envisaged in

Figure 1: Composition of Non-Debt Receipts (in per cent)

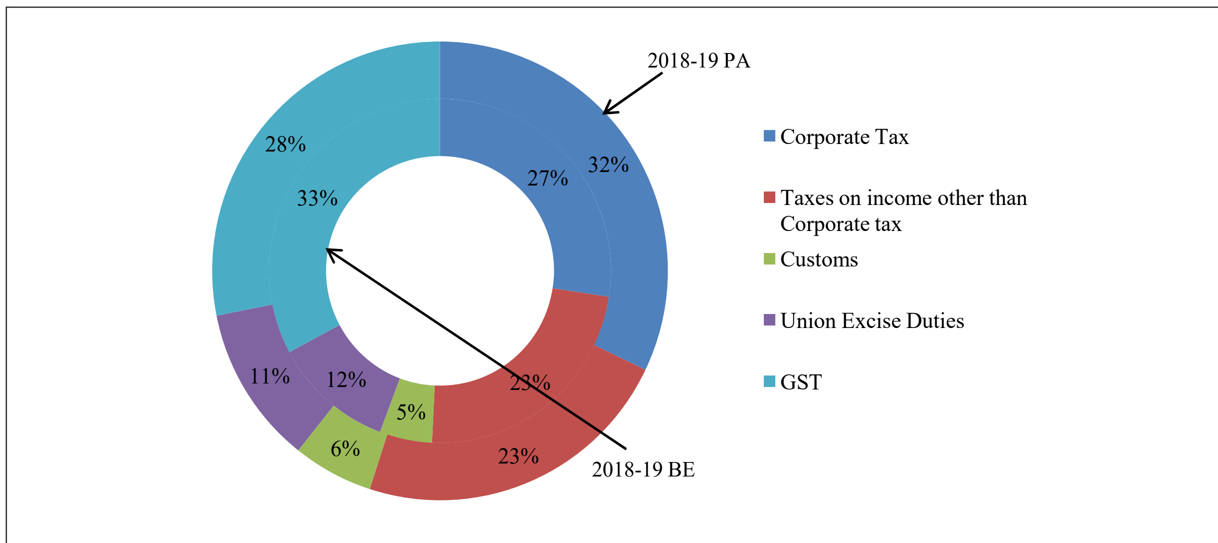


Source: Union Budget Documents & CGA

BE: Budget Estimates, RE: Revised Estimates (as per Interim Budget), PA: Provisional Actuals

the budget (refer to Table 2). Direct taxes have grown by 13.4 per cent owing to improved performance of corporate tax. However, indirect taxes have fallen short of budget estimates by about 16 per cent. This is largely owing to the shortfall in GST revenues[1]. The GST collections are yet to stabilise and several changes have been carried out following decisions of the GST Council during the course of the year. These changes, *inter alia*, relate to rate rationalisation for goods and services, changes in the threshold limits and exemptions granted, which are detailed in Annex I.

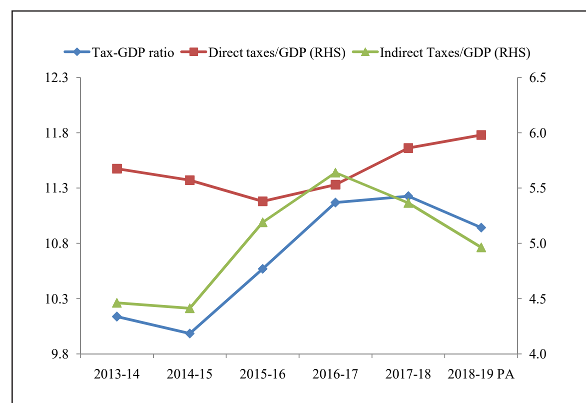
Figure 2: Composition of Gross Tax Revenue



Source: Union Budget Documents & CGA
BE: Budget Estimates, PA: Provisional Actuals

2.11 Though there has been improvement in tax to GDP ratio over the last six years (Figure 3), GTR as a proportion of GDP has declined by 0.3 percentage points in 2018-19 PA over 2017-18. Indirect taxes have fallen by 0.4 percentage points of GDP primarily due to shortfall in GST collections. This has been partly offset by 0.1 percentage points increase in direct taxes. Trends in major taxes in relation to GDP displayed in Figure 4 show that receipts from corporate tax have considerably improved in 2018-19 PA. Better tax administration, widening of TDS carried over the years, anti-tax evasion measures and increase in effective tax payers base have contributed to direct tax buoyancy. Widening of tax base due to increase in the number of indirect tax filers in the GST regime has also led to improved tax buoyancy. Going forward, sustaining improvement in tax collection will depend on the revenue buoyancy of GST.

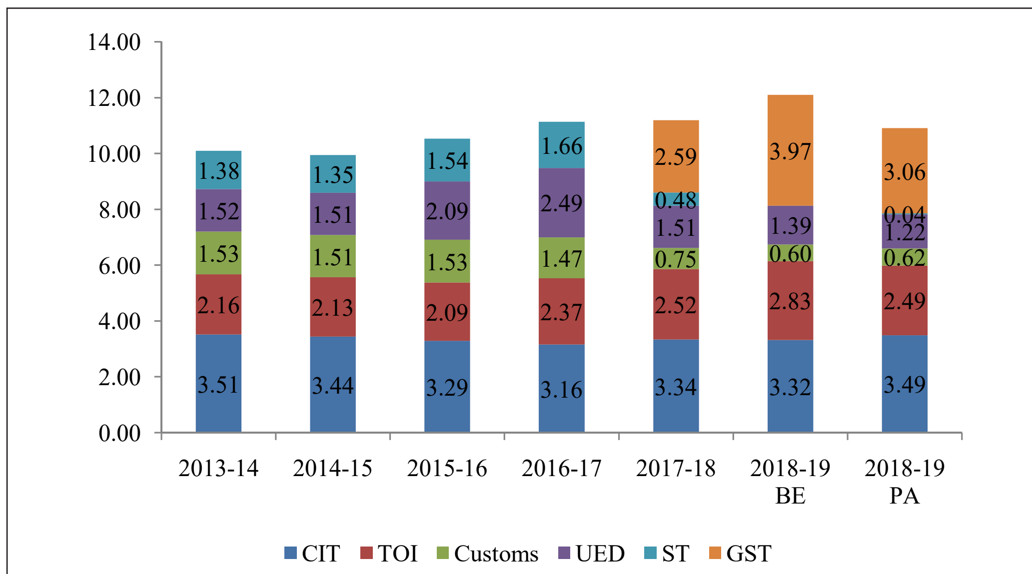
Figure 3: Tax to GDP ratio (in per cent)



Source: Union Budget Documents & CGA
PA: Provisional Actuals

[1] Includes CGST, IGST and compensation cess.

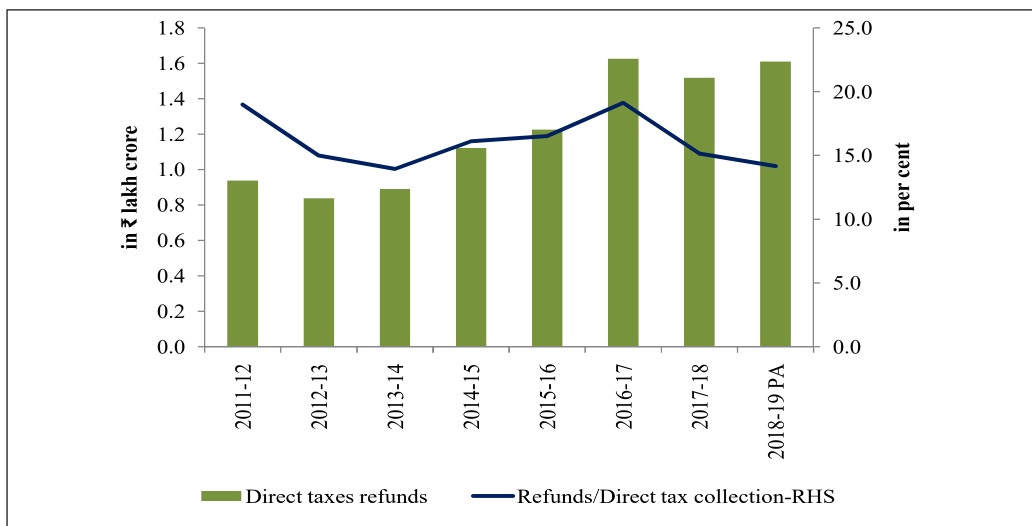
Figure 4: Taxes as per cent of GDP



Source: Union Budget Documents & CGA
BE: Budget Estimates, PA: Provisional Actuals
CIT=Corporate tax, TOI=Taxes on Income other than Corp. Tax, UED=Union Excise duties, ST=Service Tax, GST=Goods & Service Tax

2.12 Analysis of direct tax receipts shows that a significant portion of tax collected are refunded every year (refer to Figure 5). As per cent of direct tax collections, refunds have declined after 2016-17. Significant reduction in pendency of direct refund cases[2] as well as quality of assessment perhaps explain the trend in refunds over the last few years.

Figure 5: Direct Tax Refunds



Source: Union Budget Documents & CGA
PA: Provisional Actuals

[2] As per CAG Report No. 40 of 2017, pendency of direct refund cases has declined from 28.9 per cent in 2012-13 to 10.7 per cent in 2016-17.

2.13 Major measures announced for direct taxes in Budget 2018-19 and 2019-20 (Interim Budget) are presented in Annex II.

Non-Tax Revenue

2.14 Non-tax revenue consists mainly of interest receipts on loans to States and Union Territories, dividends and profits from Public Sector Enterprises including surplus of Reserve Bank of India transferred to GOI, and external grants and receipts for services provided by the Central Government. These services include fiscal services like currency, coinage and mint, general services such as Public Service Commission and police, social services like education and health, and economic services like irrigation, transportation and communication. The Budget for 2018-19 envisaged generation of ₹2.45 lakh crore of non-tax revenue, 27.2 per cent higher than 2017-18, of which roughly one-third of the increase is attributable to dividends and profits (refer to Table 3). Non-tax revenue constitutes about 1.3 per cent of GDP in 2018-19.

2.15 As per the Provisional Actual figures for 2018-19, receipts from non-tax revenue have exceeded the budget estimate. Table 3 shows that increased realisation from dividends and profits has offset slight declines in its other components.

Non-Debt Capital Receipts

2.16 Non-debt capital receipts mainly consist of recovery of loans and advances, and disinvestment receipts. The share of recovery of loans has declined over the years following disintermediation of loan portion of Central assistance to States consequent to the recommendation of the Twelfth Finance Commission, and States allowed to borrow directly from the market. The Budget for 2018-19 has envisaged generation of ₹0.92 lakh crore of non-debt capital receipts, comprising ₹0.12 lakh crore of recovery of loans and advances, and ₹0.80 lakh crore of disinvestment receipts. As against this, ₹1.03 lakh crore of non-debt capital receipts including ₹0.85 lakh crore from disinvestment, as per provisional actual

Table 3: Trends in Non-tax Revenue

Items	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 BE	2018-19 RE	2018-19 PA
								(in ₹ lakh crore)
Interest receipts	0.22	0.24	0.25	0.16	0.14	0.15	0.12	0.13
Dividends & Profits	0.90	0.90	1.12	1.23	0.91	1.07	1.19	1.13
External Grants	0.04	0.02	0.02	0.01	0.04	0.03	0.01	0.01
Others	0.83	0.83	1.12	1.32	0.84	1.20	1.13	1.19
Non-tax Revenue	1.99	1.98	2.51	2.73	1.93	2.45	2.45	2.46

Source: Union Budget Documents & CGA
BE: Budget Estimates, RE: Revised Estimates (as per Interim Budget), PA: Provisional Actuals

figures, have been realised during 2018-19. The details of disinvestment during 2018-19 and new initiatives being undertaken by the Department of Investment and Public Asset Management (DIPAM) are given in Box 1.

Box 1: Disinvestment

The B.E. for disinvestment for the year 2018-19 was fixed at ₹0.80 lakh crore. Against this, ₹0.85 lakh crore was collected using a variety of instruments like Initial Public Offers (IPOs), Offer for Sale (OFS), Buyback, Exchange Traded Funds (ETF), etc. Details are as under:

IPOs:

Proceeds from listing of five companies (MIDHANI, RITES, IRCON, GRSE and MSTC) in the stock exchanges: ₹1,914 crore.

OFS:

Proceeds from the Coal India Offer for Sale (OFS) including Employee OFS: ₹5,236 crore.

Buybacks:

Buyback of shares of eleven companies (KIOCL, NALCO, NLC, CSL, BHEL, NHPC, IOCL, ONGC, NMDC, OIL and CIL): ₹10,669 crore.

ETFs:

Exchange Traded Funds (ETFs) consisting of (i) CPSE-ETF and (ii) Bharat-22 ETF yielded ₹45,080 crore during 2018-19.

Strategic Disinvestment:

Progress was made in respect of the 28 cases of Strategic Disinvestment approved by the Government, which are at different stages, with three companies stra tegically sold off during FY 2018-19, namely, (i) Hospital Services Consultancy Corporation Ltd. (HSCC Ltd.), (ii) Dredging Corporation of India Ltd. (DCIL) and (iii) National Projects Construction Corporation Ltd. (NPCC Ltd.).

HSCC was acquired by NBCC India at a consideration of ₹285 crore while Dredging Corporation was acquired by a Consortium of four ports at ₹1,049 crore. NPCC was acquired by WAPCOS at a consideration of ₹79.80 crore.

A major transaction for strategic acquisition of Government of India's equity holding in Rural Electrification Corporation Ltd. (REC) was completed by Power Finance Corporation Ltd. (PFC) in an off-market deal at a consideration of ₹14,500 crore.

Listing of unlisted CPSEs:

CCEA has given 'in-principle' approval for Initial Public Offer/ Further Public Offer (FPO) of seven CPSEs, namely, Telecommunication Consultants (India) Ltd. (IPO), RailTel Corporation India Ltd. (IPO), National Seed Corporation India Ltd. (IPO), Tehri Hydro Development Corporation Ltd. (IPO), Water & Power Consultancy Services (India) Ltd. (IPO), FCI Aravali Gypsum and Mineral (India) Ltd. (IPO) and Kudremukh Iron Ore Company Ltd. (FPO). Necessary action for listing of these companies has been initiated. Listing of IRCTC, IRFC and NEEPCO earlier approved is also being taken up.

New Initiatives undertaken by DIPAM:

1. Focus on Asset Monetisation – Policy & Process:

(i) The Institutional framework was notified on 8 March, 2019 covering:

(a) Identified non-core assets of CPSEs under Strategic Disinvestment.

(b) Immovable Enemy Property under the custody of CEPI, MHA.

(c) Assets of other CPSEs/PSUs/other Government Organization including sick/loss making CPSEs.

(ii) Process has been set in motion:

(a) Alternative Mechanism (AM), Inter-ministerial Group (IMG) and Consultative Groups have been notified;

(b) Hiring of intermediaries for Asset Monetisation Cell started.

(c) Process of identification of potential assets to be monetized has been started.

2. Debt- ETF**:**

Following an announcement in the Budget Speech of Finance Minister in February 2018, DIPAM is in the process of creating a Debt-ETF to enable CPSEs to access the debt/ bond market to partially meet the capital expenditure needs by leveraging their aggregate strength. Adviser, Legal Adviser, and AMC have been appointed.

Source: Department of Investment and Public Asset Management (DIPAM)

Trends in Expenditure

2.17 Rationalisation and reprioritisation of government expenditure is integral to fiscal reforms. As India's tax to GDP ratio is low, Government faces the challenge of providing sufficient funds for investment and infrastructure expansion while maintaining fiscal discipline. Therefore, improving the composition and quality of expenditure towards capital spending becomes significant.

2.18 The composition of government expenditure (refer to Figure 7) reveals that expenditure on defence, salaries, pensions, interest payments and subsidies account for more than sixty per cent of total expenditure. Several initiatives have been undertaken by the Ministry of Defence to improve efficiency and utilisation of defence expenditure, promote self-reliance, and encourage private sector participation in the defence sector. These are detailed in Box 2. Expenditures on salaries, pensions and interest payments are, by and large, committed in nature and have limited headroom for creation of additional fiscal space. Subsidies have seen significant moderation through improved targeting (refer to Figure 8). There has been considerable restructuring and reclassification of Central sector and Centrally Sponsored Schemes in the recent past. Even capital expenditure[3] was rationalised in 2017-18, wherein support provided to Railways and the mechanism for transferring Externally Aided Project loans to States were rationalised.

[3] There was a reduction to the tune of approximately ₹15,000 crore in Government of India's support to Railways as it was decided that the Railways would access the market directly to transition towards greater financial autonomy. With respect to Externally Aided Projects (EAP) loans to States, the BE was ₹18,500 crore. This expenditure, under a loan Major Head (7601), was actually in the nature of pass through as the states could only borrow externally against the guarantee of the Consolidated Fund of India. Therefore, this arrangement was impacting the fiscal deficit of the Government of India, when the loans were the liabilities of the state governments. This arrangement was changed to reflect the fact that only final repayments to the international organisations amounting to ₹4,500 crore would form part of the expenditure of the Government of India. This accounting arrangement would reflect as a reduced capital expenditure for Central Government.

Box 2: Defence Initiatives

Budget

- The allocation for Defence Budget, including Civil estimates and Pensions for 2018-19 is ₹4,04,364.71 crore, which is ₹44,510.50 crore over BE 2017-18.
- Capital Expenditure in absolute terms has gone up in the past few years. The allocated Capital Budget has been fully utilized since 2016-17, reversing the previous trends of surrender of funds.
- The trend of underutilization of Defence Budget has also been reversed in FY 2016-17 and 2017-18.
- Delegation of enhanced financial powers to Vice-Chiefs of the three Services has been done primarily to expedite the decision-making process involved in revenue procurements of the Armed Forces. With the latest delegation, the Vice-Chiefs now have powers up to ₹500 crore for revenue procurement. On the capital side also, the ceiling has been enhanced to ₹300 crore from ₹150 crore.
- Ministry of Defence has comprehensively reviewed the Defence Procurement Procedure 2016. Several measures as part of "Business Process Re-engineering" have been undertaken to make the acquisition process industry friendly, provide a level playing field for various stakeholders and reduce the complexities and time lines in provisioning of defence platforms, equipment and systems for modernization of the Indian Armed Forces.

Self-Reliance

- To achieve self-reliance in the defence sector and make India a global hub in defence manufacturing, the Ordinance Factories (OFs), Defence Public Sector Undertakings (DPSUs) and the private industry ecosystem have enhanced their capabilities and widened the product range. A large number of major products have been developed through Research and Development initiatives. In addition, a number of products and equipment are being produced through transfer of technology.
- As a policy, DPSUs and OFs have been outsourcing many of their requirements and have over the years, developed a wide vendor base that includes a large number of medium and small scale enterprises and large scale industries. In addition, the DPSUs and OFs are also striving to increase the indigenous content in the equipments and products manufactured by them.

Policy Initiative

- In order to encourage participation of Indian industry in design and development of defence items, a **'Make-II' procedure** was notified in February 2018 wherein a number of industry friendly provisions have been introduced, such as relaxation of eligibility criteria, minimal documentation, and provision for consideration of suo-moto proposals suggested by industry/ individual. The framework for implementation of Make-II at OFs and DPSUs level has been issued in February 2019. The framework will enable OFs & DPSUs to undertake indigenization of the items, particularly of the import substitution nature, through Indian private industry.

- An innovation ecosystem for Defence, titled "Innovation for Defence Excellence" (iDEX) was launched in April 2018 by the Hon'ble PM. iDEX is aimed at creating an ecosystem to foster innovation and technology development in Defence and Aerospace. iDEX intends to engage industries including MSMEs, Start-ups, Individual Innovators, R&D institutes and Academia and provide them grants/funding and other support to carry out R&D, which has potential for future adoption for Indian defence and aerospace needs. The iDEX programme has been operationalized through launch of the 'Defence India Startup Challenges (DISC)' in two legs, wherein innovators, organizations as well as individuals have been presented with 'Problem Statements' for resolution.

- A Defence Investor Cell has been made functional in the Department of Defence Production (DDP) since January 2018. It has played an important role as one-stop solution for all types of defence production related queries.

Private Sector Participation

- To achieve the goal of self-reliance in the Defence sector, continuous efforts are being made to increase indigenization wherever technologically feasible and economically viable. To facilitate private sector participation, several measures have been undertaken:
  - In May 2001, the Defence Industry sector, which was hitherto reserved for the public sector, was opened upto 100 per cent for Indian private sector participation, with Foreign Direct Investment (FDI) upto 26 per cent, both subject to licensing. FDI policy was further liberalized and has been allowed under automatic route upto 49 per cent, and above 49 per cent wherever it is likely to result in access to modern technology or for other reasons to be recorded.
  - After opening of the Defence Industry Sector for Indian private sector participation, so far 42 FDI proposals/Joint Ventures have been approved in defence sector for manufacture of various defence equipment, both in public and private sectors. DPIIT has issued 439 Industrial Licenses (ILs) to private companies till March 2019 for manufacture of a wide range of defence items, which were 214 till the end of March 2014.

Export Promotion

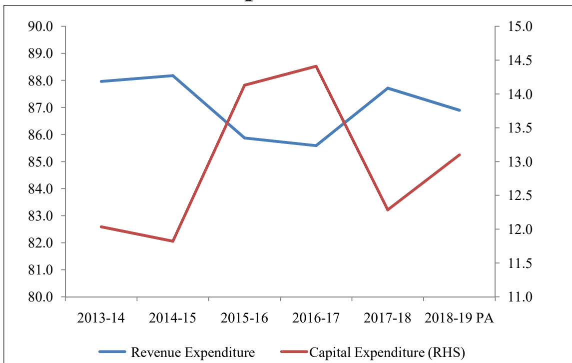
- Exports from Ordinance Factory Board (OFB), DPSUs and the private sector (based on authorization issued by DDP) in the Financial Year 2017-18 had increased to ₹4,682 crore from ₹1,522 crore in the financial year 2016-17. Further, exports have more than doubled in 2018-19 to ₹10,746 crore over the previous year.

Source: Ministry of Defence

2.19 Comparison of Provisional Actuals with budget estimates for the year 2018-19 reveals that Government has been able to contain fiscal deficit at 3.4 per cent of GDP through compression of Government expenditure. The entire reduction is in revenue expenditure (refer to Table 1). As per cent of GDP, total expenditure fell by 0.3 percentage points in 2018-19 PA over 2017-18, with 0.4 percentage points reduction in revenue expenditure and 0.1 percentage point increase in capital expenditure. Over 2017-18, total expenditure has grown by 7.9 per cent in 2018-19 PA with its capital component growing at more than twice the rate of growth in revenue (refer to Table 2).

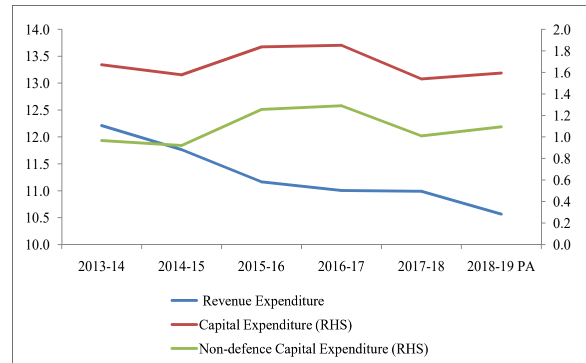
2.20 The quality of expenditure reflected in the share of capital expenditure in total expenditure has improved in 2018-19 PA over 2017-18 (refer to Figure 6). As a proportion of GDP, both capital expenditure and non-defence capital expenditure register a rise of 0.1 percentage point in 2018-19 PA (refer to Figure 6A). Expansion in capital expenditure on roads, railways and others has been met without compromising defence capital expenditure. In fact, capital expenditure of Ministry of Road Transport and Highways and Ministry of Railways has recorded impressive growth of 33 per cent and 22 per cent, respectively, in 2018-19 PA over 2017-18.

Figure 6: Revenue and Capital Expenditure as per cent of Total Expenditure



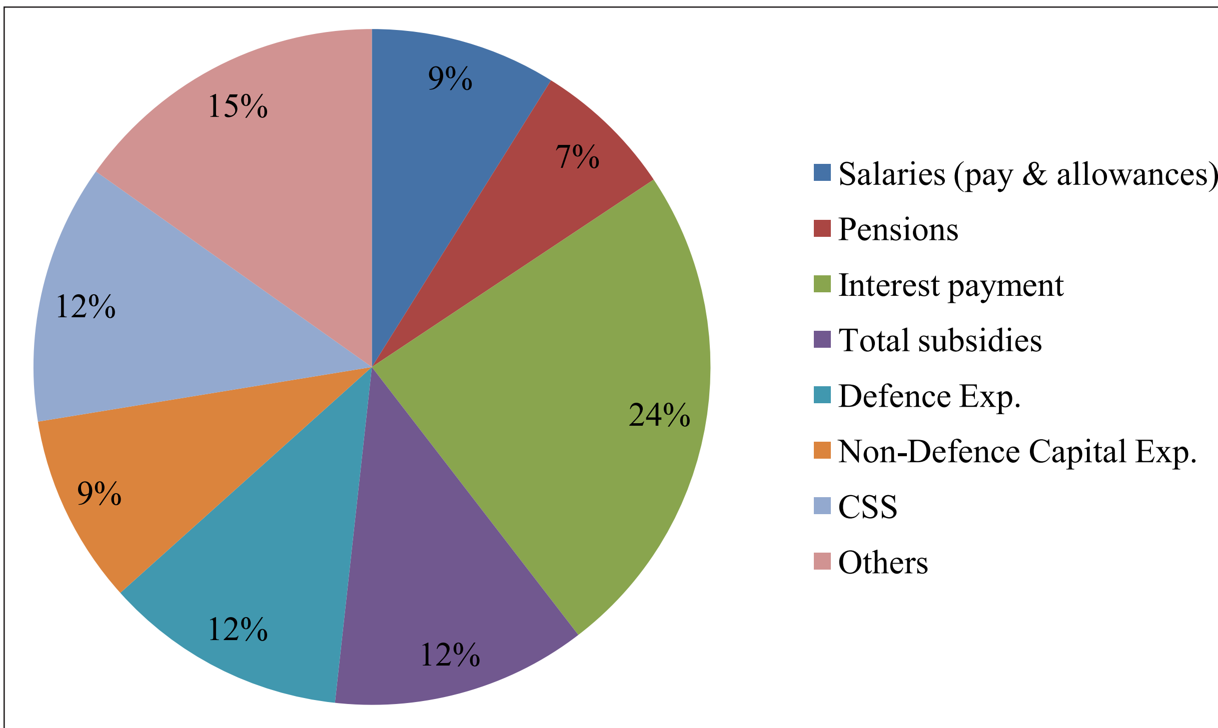
Source: Union Budget Documents & CGA
PA: Provisional Actuals

Figure 6A: Revenue & Capital Expenditure as per cent of GDP



Source: Union Budget Documents & CGA
PA: Provisional Actuals

Figure 7: Composition of Expenditure in 2018-19 RE



Source: Union Budget Documents
RE: Revised Estimates (as per Interim Budget)

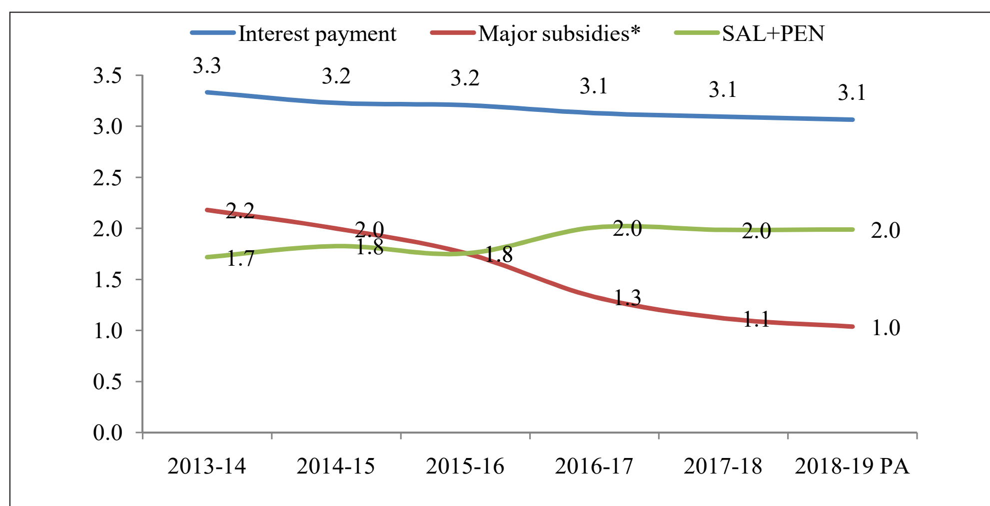
2.21 The growth in revenue expenditure in 2018-19 PA though moderate, has been led by salaries, pensions and interest payments (refer to Tables 4 & 5). Major subsidies comprising food, fertiliser and petroleum have continued their downward trend and have further declined by 0.1 percentage point of GDP in 2018-19 PA over 2017-18 (refer to Figures 8 & 9).

Table 4: Major Items of Revenue Expenditure

Items	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 BE	2018-19 RE	2018-19 PA
								(in ₹ lakh crore)
a. Salaries (pay & allowances)	1.18	1.34	1.45	1.77	1.94	2.02	2.18	2.18#
b. Pensions	0.75	0.94	0.97	1.31	1.46	1.68	1.67	1.60
c. Interest payment	3.74	4.02	4.42	4.81	5.29	5.76	5.88	5.83
d. Major subsidies*	2.45	2.49	2.42	2.04	1.91	2.64	2.66	1.97

Source: Union Budget Documents & CGA
BE: Budget Estimates, RE: Revised Estimates (as per Interim Budget), PA: Provisional Actuals
*Major subsidies here include food, fertilizer and petroleum subsidies.
#2018-19 RE as per Interim Budget

Figure 8: Major Items of Revenue Expenditure as per cent of GDP



Source: Union Budget Documents & CGA
PA : Provisional Actuals, SAL: Salary, PEN: Pensions
*Major subsidies here include food, fertilizer and petroleum subsidies.
SAL for 2018-19 PA is 2018-19 RE number

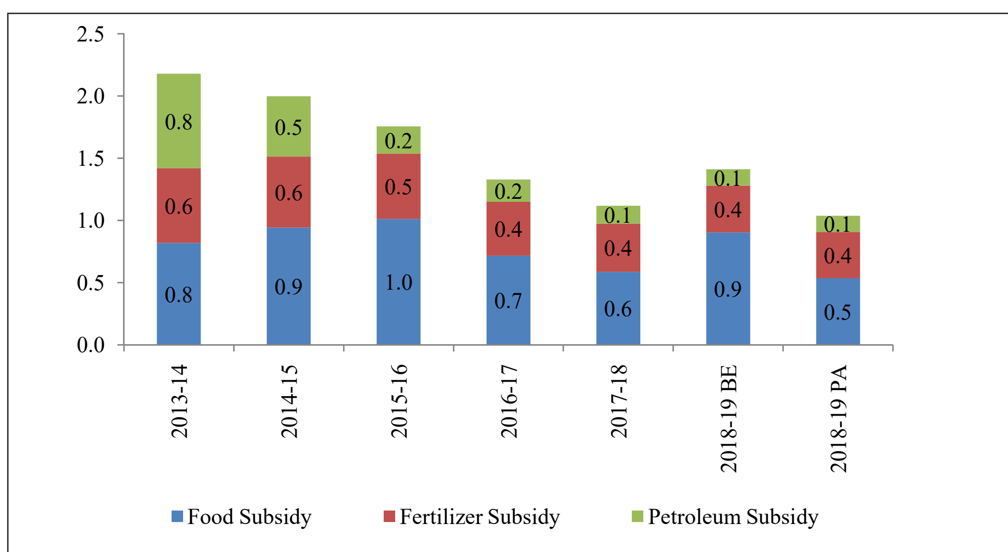
Table 5: Growth in major components of Revenue Expenditure

Items	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 BE#	2018-19 RE#	2018-19 PA#
								(in per cent)
Revenue Expenditure, of which	10.3	6.9	4.8	9.9	11.1	14.0	13.9	6.9
a. Salaries (pay & allowances)	8.9	13.6	7.9	22.6	9.2	4.4	12.7	12.7

b. Pensions	7.8	25.0	3.4	35.8	10.9	15.6	14.3	9.9
c. Interest payment	19.5	7.5	9.7	8.8	10.0	8.9	11.1	10.2
d. Major subsidies*	-1.1	1.8	-2.9	-15.6	-6.3	38.3	39.2	3.1

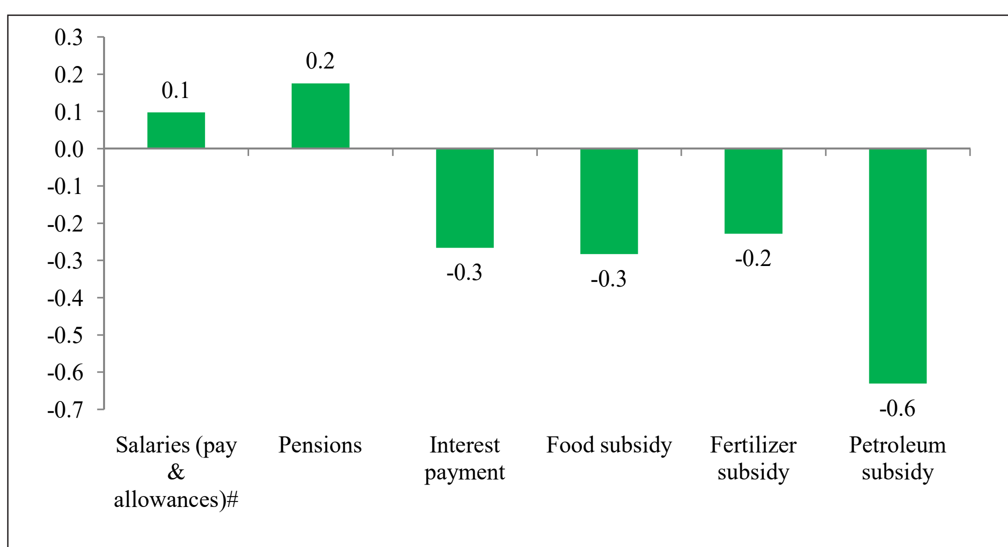
Source: Union Budget Documents & CGA
BE: Budget Estimates, RE: Revised Estimates (as per Interim Budget), PA: Provisional Actuals
*Major subsidies here include food, fertilizer and petroleum subsidies, # growth over 2017-18

Figure 9: Major subsidies* as per cent of GDP



Source: Union Budget Documents & CGA
BE: Budget Estimates, PA: Provisional Actuals
*Major subsidies here include food, fertilizer and petroleum subsidies.

Figure 10: Changes in major components of Revenue Expenditure in 2018-19 PA over 2013-014 as per cent of GDP



Source: Union Budget Documents & CGA
PA: Provisional Actuals, #2018-19 RE number (as per Interim Budget)

2.22 During 2013-14 to 2018-19 PA, the total budgetary expenditure of the Central Government has declined by 1.7 percentage points of GDP (refer to Table 1). Revenue expenditure declined by 1.6 percentage points and capital expenditure by 0.1 percentage point. Figure 10 shows that more than two-thirds of the fiscal space created by compression of revenue expenditure is on account of reduction in food, fertiliser and petroleum subsidies. This is an outcome of decline in global crude prices, decontrol of prices and better targeting through direct benefit transfer of subsidies. The recent expenditure trends show improved expenditure quality, with capital expenditure as a proportion of GDP, rising by nearly 0.1 percentage point in 2018-19 PA over 2017-18 (refer to Table 1). Apart from budgetary spending, Extra Budgetary Resources (EBR) have also been mobilised to finance infrastructure investment since 2016-17. Government has raised EBRs of ₹88,452 crore during three years from 2016-17 to 2018-19.

Transfers to States

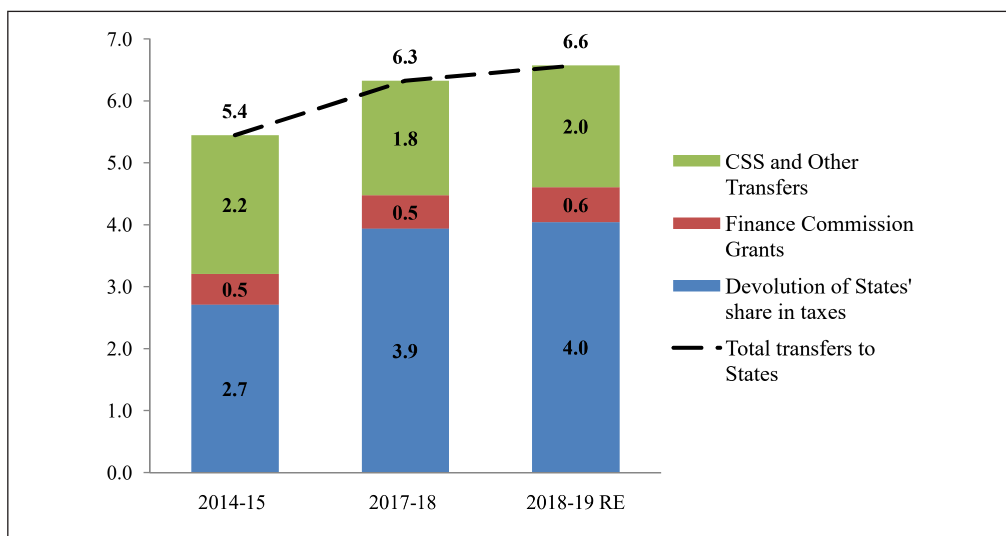
2.23 Transfer of funds to States comprises essentially of three components: share of States in Central taxes devolved to the States, Finance Commission Grants, and Centrally Sponsored Schemes (CSS), and other transfers. Till 2013-14, funds for CSS were routed through two channels, the Consolidated Funds of the States and directly to the State implementing agencies. In 2014-15, direct transfers to State implementing agencies were discontinued and all transfers to States including for the CSS were routed through the Consolidated Funds of the States. Another significant development has been award of the Fourteenth Finance Commission to devolve 42 per cent of the divisible pool of taxes to the States, up from 32 per cent earlier.

2.24 Both in absolute terms, and as a percentage of GDP, total transfers to States have risen between 2014-15 and 2018-19 RE (refer to Table 6 and Figure 11). Total transfers to States have risen by 1.2 percentage points of GDP over this period.

Central Government Debt

2.25 Total liabilities of the Central Government include debt contracted against

Figure 11: Transfers to States (as per cent of GDP)



Source: Department of Expenditure

RE: Revised Estimates (as per Interim Budget)

Table 6: Transfers to States (in ₹ crore)

Items	2014-15	2015-16	2016-17	2017-18	2018-19 BE	2018-19 RE
a. Devolution of States' share in taxes	3,37,808	5,06,193	6,08,000	6,73,005	7,88,093	7,61,454
b. Finance Commission Grants	61,813	84,579	95,550	92,244	1,09,373	1,06,129
c. CSS and Other Transfers	2,79,198	2,38,572	2,77,011	3,16,047	3,65,475	3,70,691
Total transfers to States (a+b+c)	**6,78,819**	**8,29,344**	**9,80,561**	**10,81,296**	**12,62,941**	**12,38,274**

Source: Department of Expenditure

BE: Budget Estimates, RE: Revised Estimates (as per Interim Union Budget 2019-20)

the Consolidated Fund of India, technically defined as Public Debt, as well as liabilities in the Public Account. These liabilities include external debt (end-of-the financial year) at current exchange rate but exclude part of NSSF liabilities to the extent of States' borrowings from the NSSF and investments in public agencies out of the NSSF, which do not finance Central Government deficit. Total liabilities of the Central Government at end-March 2019 stood at ₹84.7 lakh crore and 90 per cent of which was public debt (refer to Table 7).

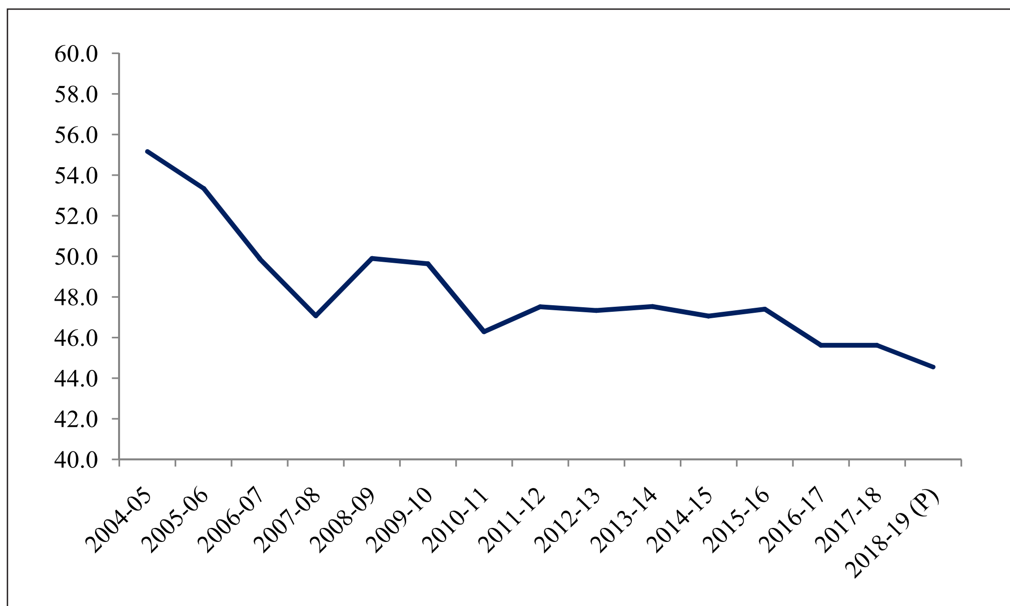
Table 7: Debt Position of the Central Government (in ₹ lakh crore)

Items	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 (P)
A. Public Debt (A1+A2)	40.97	46.15	51.05	57.11	61.50	68.84	75.79
A1. Internal Debt (a+b)	37.65	42.41	47.38	53.05	57.42	64.01	70.66
a. Marketable Securities	33.61	38.54	43.09	47.28	50.49	55.10	59.68
b. Non-marketable Securities	4.04	3.87	4.29	5.77	6.93	8.91	10.98
A2. External Debt*	3.32	3.74	3.66	4.07	4.08	4.83	5.13
B. Public Account - Other Liabilities	6.10	7.23	7.62	8.16	8.57	9.15	8.89
C. Total Liabilities (A+B)	47.07	53.39	58.66	65.27	70.07	77.99	84.68

Source: Various issues of Status Paper on Government Debt and Quarterly Report on Public Debt for December 2018, P: Provisional, * The external debt at current exchange rates from Aid, Account and Audit Division, Ministry of Finance. Data for 2017-18 and 2018-19 include net cumulative SDR allocations by the IMF.

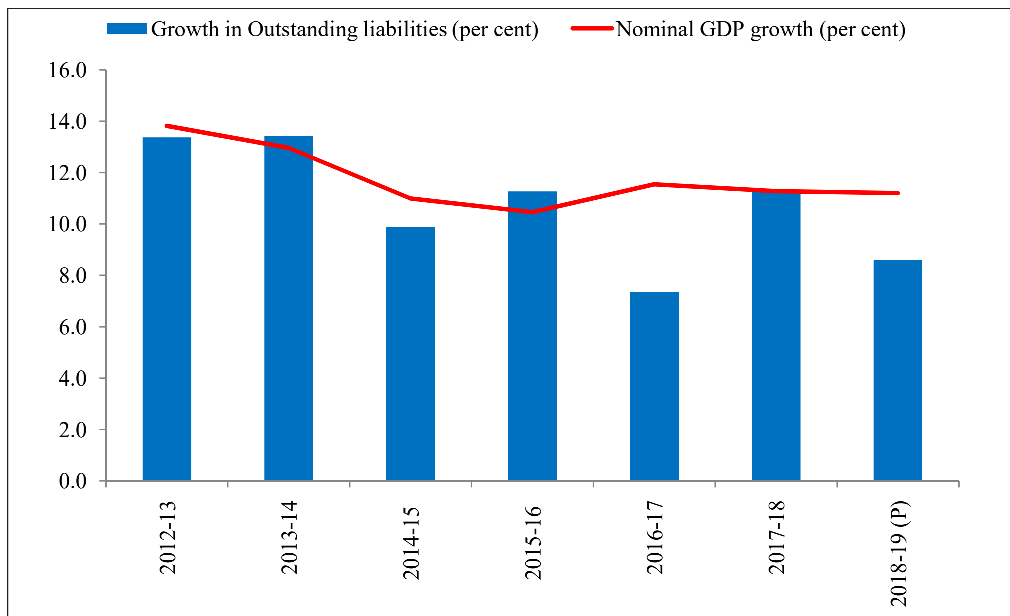
2.26 Figure 12 shows that total liabilities of the Central Government as a ratio of GDP, has been consistently declining, particularly after the enactment of the FRBM Act, 2003. This is an outcome of both fiscal consolidation efforts as well as relatively high GDP growth (Figure 13).

Figure 12: Trend in Centre's Debt-GDP ratio (in per cent)



Source: Various Issues of Status Paper on Government Debt, P: Provisional

Figure 13: GDP growth and growth in Outstanding Liabilities



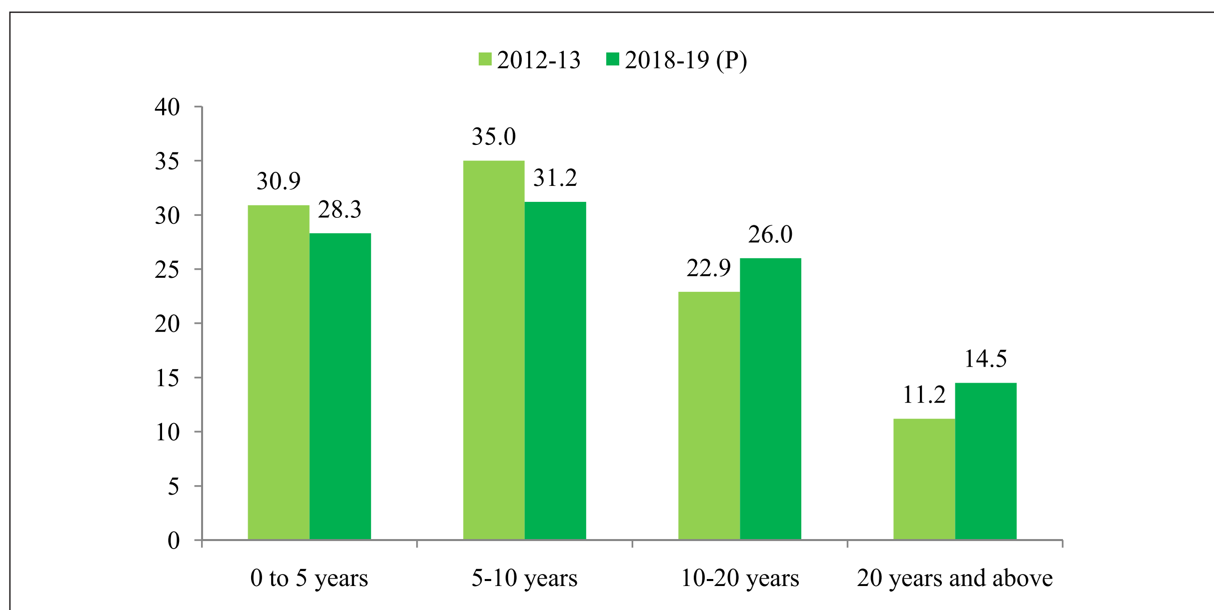
Source: Various Issues of Status Paper on Government Debt, P: Provisional

2.27 Central government debt is characterised by low currency and interest rate risks. This is owing to low share of external debt in the debt portfolio and almost entire external borrowings being from official sources. Further, most of the public debt has been contracted at fixed interest rate making India's debt stock virtually insulated from interest rate volatility. This lends certainty and stability to budget in terms of interest payments.

2.28 The other salient feature is the gradual elongation of the maturity profile of the Central Government's debt (refer to

Figure 14) leading to reduced rollover risks. The proportion of dated securities maturing in less than five years has seen consistent decline in recent years. The weighted average maturity of outstanding stock of dated securities of the GOI has increased from 9.7 years at end-March 2010 to 10.4 years at end-March 2019.

Figure 14: Maturity Profile of Outstanding Dated Central Government Securities (as per cent of total)



Source: Status Paper on Government Debt, 2017-18 and Quarterly Report on Public Debt Management for April-March 2018-19, P: Provisional

STATE FINANCES

2.29 The State budgets expanded considerably in 2017-18 RE over 2016-17 on account of increase in revenue expenditure (refer to Table 8 and Figure 15A). Capital expenditure consists of capital outlay and loans and advances by the State Governments. The loans and advances by the State Governments declined sharply in 2017-18 RE owing to reduction in loans and advances by States for power projects and food storage and warehousing. On the revenue front, States own tax and non-tax revenue display robust growth in 2017-18 RE which is envisaged to be maintained in 2018-19 BE (Table 8 & Figure 15B).

Table 8: Fiscal Indicators of States (combined)

Items	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 RE	2018-19 BE
								(in ₹ lakh crore)
Own Tax Revenue	5.6	6.5	7.1	7.8	8.5	9.1	10.5	12.0
		(17.4)	(8.8)	(9.4)	(8.7)	(7.8)	(15.1)	(14.1)
Own Non tax revenue	1.0	1.2	1.3	1.4	1.5	1.7	1.9	2.2
		(18.3)	(13.0)	(8.4)	(6.9)	(10.3)	(14.8)	(15.6)

Revenue Expenditure	10.7	12.3	13.8	16.4	18.4	20.9	25.2	27.8
		(14.6)	(12.0)	(18.7)	(12.3)	(13.5)	(20.7)	(10.5)
Capital Expenditure	2.1	2.2	2.4	3.0	4.2	5.1	5.1	5.8
		(6.2)	(9.6)	(23.3)	(40.5)	(20.4)	(-0.1)	(12.9)
Total Expenditure	12.8	14.5	16.2	19.4	22.6	26.0	30.3	33.6
		(13.2)	(11.6)	(19.4)	(16.7)	(14.8)	(16.6)	(10.9)

Source: RBI State Finances: A Study of Budgets, RE : Revised Estimates, BE : Budget Estimates
Numbers in parenthesis are growth rates

Figure 15A : States' Expenditure in ₹ lakh crore

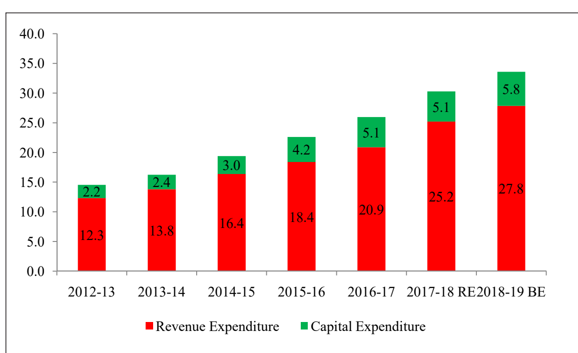
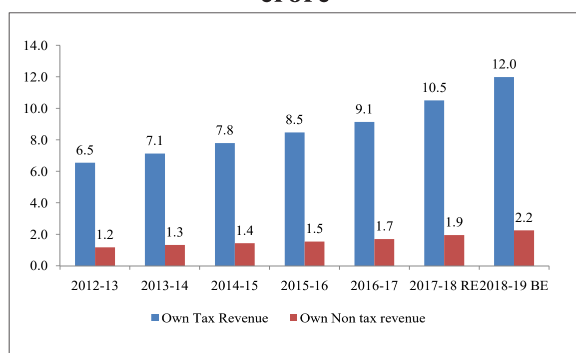


Figure 15B : Own Tax & Non-tax Revenue of States (combined) in ₹ lakh crore



Source: RBI State Finances: A Study of Budgets, RE : Revised Estimates, BE : Budget Estimates

2.30 The RBI study on State Finances points to the deterioration in fiscal deficit to GDP ratio in 2017-18 RE when compared to the budget estimate. This deterioration occurred due to the overshooting of revenue expenditure mainly due to farm loan waiver and pay revisions. However, over 2016-17, there is consolidation in fiscal deficit by about 0.4 percentage points (refer to Figure 16 A).

2.31 States have budgeted for fiscal deficit of 2.6 per cent of GDP in 2018-19 BE. Consolidation is mainly due to posting of surplus of about 0.2 percentage points of GDP on the revenue account (refer to Figure 16 B).

Figure 16A: Gross Fiscal Deficit of States (as per cent of GDP)

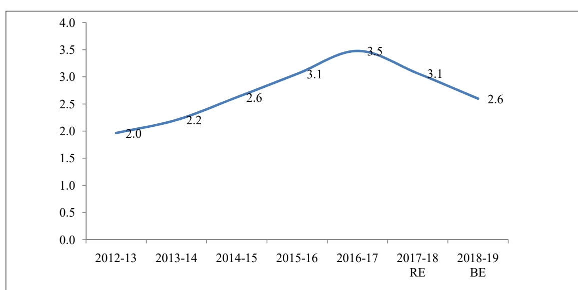
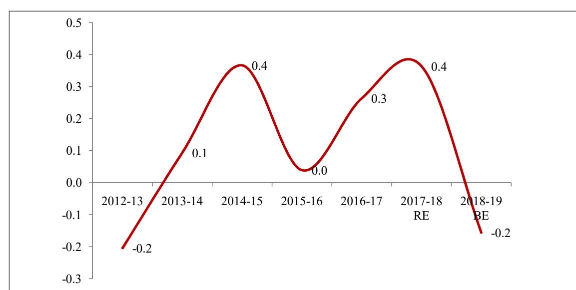


Figure 16B: Revenue Deficit of States (as per cent of GDP)



Source: RBI State Finances: A Study of Budgets, RE : Revised Estimates, BE : Budget Estimates

2.32 Figure 17 shows that outstanding liabilities of states, as per cent of GDP, has increased after 2014-15. The issuance of UDAY bonds in 2015-16 and 2016-17, farm loan waivers, and the implementation of pay commission awards have led to higher debt to GDP ratio. Economic Survey 2016-17 had estimated impact of UDAY bonds on fiscal deficit to be 0.7 percentage points of GDP. However, despite rising States' debt to GDP ratio, interest payment as proportion of revenue receipts has not deteriorated (refer to Figure 18).

Figure 17: Total Outstanding liabilities of the State Governments (as per cent of GDP)

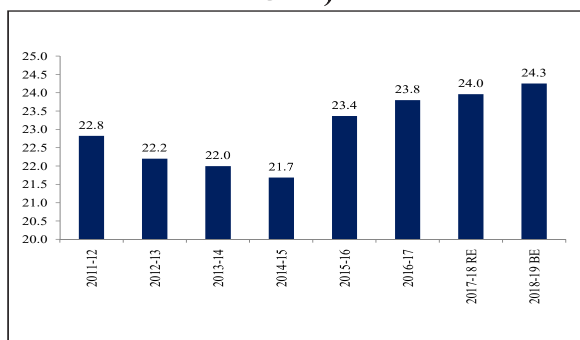
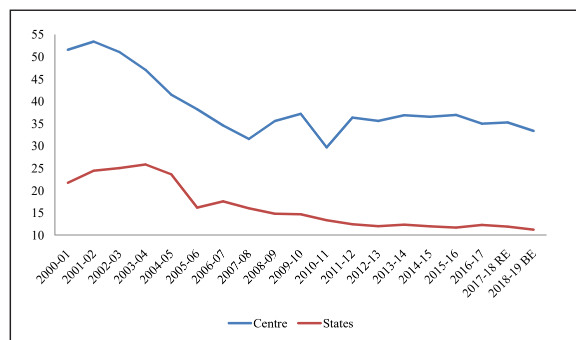


Figure 18: Interest Payments/Revenue Receipts (in per cent)



Source: RBI State Finances: A Study of Budgets, Union Budget Documents, RE : Revised Estimates, BE : Budget Estimates

GENERAL GOVERNMENT FINANCES

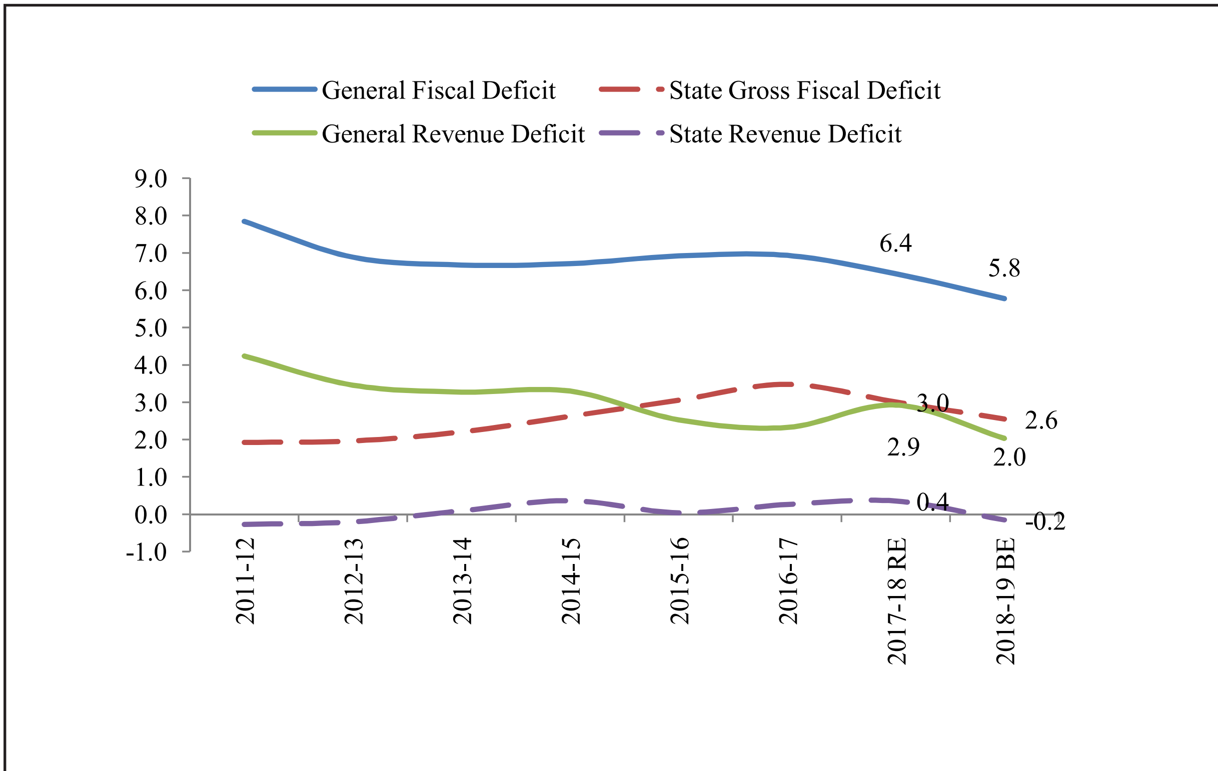
2.33 The General Government (Centre plus States) has been on the path of fiscal consolidation and fiscal discipline. The combined liabilities of Centre and States have declined to 67 per cent of GDP as on end-March 2018 from 68.5 per cent of GDP as on end-March 2016 (refer to Table 9). The fiscal deficit of General Government is further expected to decline from 6.4 per cent of GDP in 2017-18 RE to 5.8 per cent of GDP in 2018-19 BE (Figure 19).

Table 9: Total outstanding liabilities of Centre and States (as per cent of GDP)

Year	Liabilities of Centre	Liabilities of States	Combined Liabilities of the Centre & States
2011-12	47.5	22.8	67.4
2012-13	47.3	22.2	66.7
2013-14	47.5	22.0	67.1
2014-15	47.1	21.7	66.6
2015-16	47.4	23.4	68.5
2016-17	45.6	23.8	67.0
2017-18	45.6	24.0 (RE)	67.0

Source: Various Issues of Status Paper on Government Debt & RBI State Finances: A Study of Budgets
RE : Revised Estimates

Figure 19: Gross Fiscal Deficit & Revenue Deficit of General and State Governments (as per cent of GDP)



Source: RBI. RE : Revised Estimates, BE : Budget Estimates

OUTLOOK

2.34 The coming year will pose several challenges on the fiscal front. Firstly, there are apprehensions of slowing of growth, which will have implications for revenue collections. Secondly, the financial year 2018-19 has ended with shortfall in GST collections. Therefore, revenue buoyancy of GST will be key to improved resource position of both Central and State Governments. Thirdly, resources for now expanded Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) and Ayushmaan Bharat, as well as new initiatives of the new Government, will have to be found without compromising the fiscal deficit target as per the revised glide path. Fourthly, US sanctions on oil import from Iran is likely to have impact on oil prices and thereby on the petroleum subsidy, apart from implications for current account balances. Finally, Fifteenth Finance Commission will submit its report for next five years beginning April 2020. Its recommendation especially on tax devolution will have implications for Central Government finances.

CHAPTER AT A GLANCE

- ➢ The revised fiscal glide path envisages achieving fiscal deficit of 3 per cent of GDP by FY 2020-21 and Central Government debt to 40 per cent of GDP by 2024-25. The FY 2018-19 has ended with fiscal deficit at 3.4 per cent of GDP and debt to GDP ratio of 44.5 per cent (Provisional).
- ➢ As per cent of GDP, total Central Government expenditure fell by 0.3 percentage points in 2018-19 PA over 2017-18, with 0.4 percentage points reduction in revenue expenditure and 0.1 percentage point increase in capital expenditure.
- ➢ With respect to States finances, their own tax and non-tax revenue display robust growth in 2017-18 RE which is envisaged to be maintained in 2018-19 BE.
- ➢ The General Government (Centre plus States) has been on the path of fiscal consolidation and fiscal discipline.
- ➢ Several challenges on the fiscal front in 2019-20 include revenue implications on account of apprehensions of slowing of growth, revenue buoyancy of GST and provisioning for schemes such as PM-KISAN without compromising the fiscal deficit target.

Annex I*: Status of implementation of GST and Recent Initiatives in Customs Duty

A. Implementation Status of GST

Facilitation measures in GST

(i) Threshold limit of aggregate turnover for exemption from registration and payment of GST for the suppliers of goods has been enhanced from ₹10 lakhs to ₹20 lakhs (in the States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry, Sikkim, Telangana, Tripura and Uttarakhand) and from ₹20 lakhs to ₹40 lakhs for other States, with effect from 01.04.2019.

(ii) Composition scheme has been formulated for small businessman - supplier of goods and restaurant services. Under the scheme, persons with turnover up to ₹1.5 crore (₹75 lakhs in States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand) need to pay tax equal to 1 per cent to 5 per cent on his turnover and to file returns annually, with quarterly payment from FY 2019-20.

(iii) Composition scheme has been formulated for suppliers of services. Under the scheme, persons with turnover up to ₹50 lakhs need to pay tax equal to 6 per cent on their turnover and need to file their returns annually with quarterly payment from financial year 2019-20.

(iv) GST Council once again allowed the migration process for taxpayers from erstwhile tax regimes. Due dates for furnishing return in Form GSTR-3B & Form GSTR-1 (for taxpayers with turnover more than ₹1.5 crore) for such newly migrated taxpayers for the months from July, 2017 to December, 2018 was extended till 31.03.2019. Similarly, Form GSTR-1 (for taxpayers with turnover upto ₹1.5 crore) for the quarters from July, 2017 to December, 2018 was extended till 31.03.2019.

(v) As per the new return filing system, there would be only one return form to be filed monthly. Frequency for filing of return for small taxpayers having turnover upto ₹5 crore in previous FY will be quarterly [Sahaj (only B2C), Sugam (B2B and B2C) and normal quarterly]. In the new system, supplier will be allowed to upload the invoices continuously anytime during the month and the recipient would also be able to continuously view the uploaded invoice. Misuse of ITC due to default in payment of tax by the supplier shall be controlled primarily by recovery of tax from the supplier. However, reversal of credit from buyer shall also be an option available with the revenue authorities in certain exceptional circumstances. The new return system will be implemented on a trial basis from 01.04.2019 and will be mandatory from 01.07.2019.

(vi) Government has been very pro-active in ensuring that GST gets implemented smoothly. GST Law / Rules / procedures have been adapted to the needs of the trade and industry. To this effect, since the date of introduction, Centre has issued 495 notifications, 101 circulars, 18 orders, 12 removal of difficulties orders & more than 125 press releases (as on 28.02.2019).

(vii) Exemption from TDS has been granted in case of supply made by any Government authority / PSU to another Government authority / PSU.

---

* The tax measures and rate changes given in this Annex are only meant for general readers and will not serve as reference points for tax payers.

Measures under GST to boost exports

(i) Relief has been given to exporters by giving them an option to export without payment of tax, by submitting a simple letter of undertaking on their letter heads. This is in line with the philosophy of charging no tax on exports.

(ii) Glitches in the refund process were overcome by devising a manual process for the same. Requisite circulars were issued in order to bring clarity and make the procedure certain. A concerted drive was undertaken to make refund to the taxpayers.

(iii) Total amount of RFD-01A claims disposed by Centre and States is ₹65,567 crore (approximately). Further, IGST refund claims to the tune of ₹68,014 crore (approximately) have also been disposed. Thus, refund claims totalling to ₹1,33,581 crore have been disposed of till 31.03.2019.

(iv) Merchant exporters have to pay nominal GST of 0.1 per cent for procuring goods from domestic suppliers for export. This was done in order to provide a big thrust to the growth of the export sector and resolve their working capital issues. The permanent solution to cash blockage is "e-Wallet" scheme, which is proposed to be launched with effect from 01.04.2020.

GST rate rationalization

Goods

(i) With the expansion of tax base and the stabilization of revenues under GST, a continuous rationalization of GST rate structure has been done. Today, only about 32 items are remaining in the 28 per cent slab. Bulk of the items remaining in this category are either luxury or sin goods.

(ii) The major rate reductions during the financial year 2018-19 are as follows:

a. **28 per cent to 18 per cent/12 per cent/5 per cent:** The GST rates were reduced to lower the cost to the consumers, thereby increasing purchasing power of consumers, this has added to the increased consumption in the economy. Some of the items on which the rates were brought down from 28 per cent were consumer goods such as televisions upto the size of 68 cm, refrigerators, freezers and other refrigerating equipment including water coolers, milk coolers, washing machines, vacuum cleaners, domestic electrical appliances such as food grinders and mixers etc., storage water heaters, immersion heaters, hair dryers, digital cameras and video camera recorders, etc. Certain other industrial use items were also removed from the 28 per cent list such as pulleys, transmission shafts and cranks, gear boxes etc., lithium ion batteries, refrigerating equipment for the leather industry, ice cream freezers, special purpose motor vehicles, works trucks [self-propelled, not fitted with lifting or handling equipment] of the type used in factories, warehouses, dock areas or airports, fuel cell vehicle, re-treaded or used pneumatic tyres of rubber etc.

b. 18 per cent to 12 per cent/5 per cent/nil: GST rates were rationalized to avoid classification disputes on cork (roughly squared or debagged), articles of natural cork, agglomerated cork and marble rubble. Similarly, for the benefit of masses, the GST rates have been

rationalized for stone/marble/wooden deities, bamboo flooring, brass kerosene pressure stove, hand operated rubber roller, zip and slide fasteners etc.

c. **12 per cent to 5 per cent:** GST rates on natural cork, walking stick, fly-ash blocks, handloom dari, fertilizer grade phosphoric acid, knitted cap/topi having retail sale value less than ₹1000 have been rationalised.

d. **Other significant rationalization measures under GST:**

- Considering the difficulty faced by the Fabric sector on account of the blocking of input tax credit on fabrics arising out of the inverted duty structure, the GST Council in its 28th meeting held on 21st July, 2018 recommended allowing refund to fabrics on account of inverted duty structure. The refund of accumulated ITC was allowed only with the prospective effect on the purchases made after the notification is issued.
- GST rates have been rationalized on specified handicraft items.
- IGST @5per cent on Pool Issue Price (PIP) of Urea imported on Govt. account for direct agriculture use, instead of assessable value plus custom duty.

(iii) Exemption from the levy of GST on goods

- The GST Council recommended granting exemption to the following goods used by the common man, namely, sanitary napkins, coir pith compost, sal leaves, siali leaves and their products and sabai rope, phool bhari jhadoo, khalidona, music books, vegetables (uncooked or cooked by steaming or boiling in water, frozen, branded and put in a unit container), vegetable provisionally preserved (for example by sulphur dioxide gas, in brine, in sulphur water or in other preservative solutions), but unsuitable in that state for immediate consumption etc.
- Clarifications/ amendments as regards the applicability of GST rate in respect of certain goods such as sprinkler system consisting of nozzles, lateral and other components, movement of rigs, tools & spares and all goods on wheels on own account, LPG supplied in bulk to an OMC by refiners/fractioners for bottling for further supply, etc.

Services

(i) After implementation of GST regime, rates have been rationalized significantly to address the concerns of trade and consumers. The major rate reductions during the financial year 2018-19 are as follows:

- The GST rate on services provided by restaurants (except by restaurants in hotels having tariff of ₹7500 per unit per day or more) have been reduced from 18 per cent to 5 per cent.
- With effect from 1st April, 2019, effective GST rate on construction of affordable houses has been reduced from 8per cent to 1 per cent and on other houses i.e. not in the affordable category, from 12 per cent to 5 per cent. Affordable houses have been defined as houses having carpet area of 60 sqm in metropolitan areas and upto 90 sqm in non-metro areas and having cost of upto ₹45 lakhs.

- GST rate on cinema theatres having entry ticket of upto ₹100 has been prescribed at reduced rate of 18 per cent.
- GST rate on services provided by amusement parks including theme parks, water parks, joy rides, merry go rounds, go carting and ballet has been reduced from 28 per cent to 18 per cent.

(ii) Exemption from the levy of GST on Services:

Two major services consumed by the common man, namely, health care services provided by clinical establishments and educational services provided by educational institutions are exempted from GST.

In addition, following services consumed by the common man have been completely exempted from GST:

(a) Services received from a provider of service located by way of supply of online educational journals or periodicals to a higher educational institution (i.e., other than an institution providing pre-school education and education up to higher secondary school or equivalent).

(b) Services provided by an educational institution by way of conduct of entrance examination against consideration in the form of entrance fee.

(c) Services provided to an educational institution, by way of supply of services relating to admission to, or conduct of examination by all educational institutions.

(d) Services provided by Fair Price Shops to Central Government, State Government or Union Territory by way of sale of food grains, kerosene, sugar, edible oil, etc. under Public Distribution System against consideration in the form of commission or margin.

(e) Services by way of giving on hire motor vehicle for transport of students, faculty and staff, to a person providing services of transportation of students, faculty and staff to an educational institution providing services by way of pre-school education and education upto higher secondary school or equivalent (sub-contractor will also be exempt from GST).

(f) Services by way of admission to a protected monument so declared under the Ancient Monuments and Archaeological Sites and Remains Act 1958 or any of the State Acts, for the time being in force.

(g) Services by way of right to admission to circus, dance, or theatrical performance including drama or ballet; award function, concert, pageant, musical performance or any sporting event other than a recognised sporting event; recognised sporting event; planetarium, where the consideration for right to admission to the events or places is not more than ₹500 per person.

(h) Services of life insurance business provided by way of annuity under National Pension System regulated by PFRDA is exempt.

(i) Services of a Resident Welfare Associations (RWA) to its members against contribution of an amount upto ₹7500 per month.

(iii) Multiple reliefs from GST taxation have been provided to following categories of services:

(i) Agriculture, farming and food processing industry,

(ii) Education, training and skill development,

(iii) Pension, social security and old age support.

(iv) Banking/ Finance/ Insurance services,

(v) Government Services,

(vi) Tourism and hospitality services,

(vii) Construction and works contract services,

(viii) Transportation services.

B. Customs Duty

- There has been concerted effort from the Government to avoid inverted duty structure on goods imported into India. The Basic Customs Duty (BCD) rates have been rationalized to the rate of 2.5 per cent/5 per cent/7.5 per cent on most of the inputs and intermediate products like industrial chemicals, ores and concentrates, fuels for industrial use, textile fibres and yarns etc. used in industries for manufacturing.

- Government has followed a conscious policy to promote the "Make in India" initiative. Therefore, several end use-based exemptions and lower rates of customs duty have been prescribed on goods imported for further processing in India and higher import duties on finished products. The customs duty was increased on finished products like footwear, processed foods, cellular mobile phones, perfumes, cosmetics and other toilet preparations, watches, furniture, toys, light fittings etc., in Union Budget 2018-19. In October, 2018, duties were increased on plastic articles, washing machine, refrigerator, air conditioners, speakers, telecom equipment and certain other items that are largely imported from China.

- The customs duty rates on most of the electronic and IT products imported from China have been increased several times over the last two years. There has been an increase in customs duty on finished electronics goods and consumer durables like cellular mobile phones, LED TVs, microwave ovens, refrigerators, air conditioners etc. to promote domestic value addition.

- Further the customs duty on 298 tariff lines of man-made fibre fabrics was increased from 10 per cent to 20 per cent for protecting domestic industry from imports. Further BCD was increased on 504 tariff lines of textile articles including garments.

Annex II*: Recent Initiatives in Direct Taxes in Budget 2018-19 and 2019-20 (Interim Budget)

A. Summary of important measures announced in the Union Budget 2018-19:

- The rate of income-tax for companies with a turnover up to ₹250 crores in FY 2016-17 was reduced to 25 per cent.
- To allow a standard deduction upto ₹40,000/- or the amount of salary received, whichever is less and rationalised exemption in respect of transport allowance and reimbursement of miscellaneous medical expenses.
- The following incentives have been provided for senior citizens:
  - ➢ The limit of deduction for health insurance premium and/or medical expenditure has been increased from ₹30,000/- to ₹50,000.
  - ➢ The limit of deduction for medical expenditure in respect of certain critical illnesses has been increased up to ₹1,00,000/- in the case of all senior citizens (of the age of 60 years or more).
  - ➢ A deduction of ₹50,000/- has been provided to senior citizens on interest income from deposits with banks, co-operative societies and post offices.
  - ➢ The threshold limit for deduction of tax at source on interest income for senior citizens has been increased from ₹10,000/- to ₹50,000/-.
  - ➢ A senior citizen having pension income shall be eligible to claim standard deduction of upto ₹40,000/- or the amount of pension received, whichever is less.
- It is provided that every person, not being an individual, which enters into a financial transaction of an amount aggregating to ₹2.5 lakh or more in a financial year, and the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer or any person competent to act on behalf of such person shall be required to apply for allotment of PAN.
- It is provided that in the case of an amalgamated company, accumulated profits, whether capitalised or not, or losses as the case may be, shall be increased by the accumulated profits of the amalgamating company, whether capitalized or not, on the date of amalgamation.
- It is provided to bring deemed dividends also under the scope of dividend distribution tax and to tax such deemed dividend at the rate of 30 per cent (without grossing up) in order to prevent camouflaging dividend in various ways such as loans and advances.
- The exemption under section 10(38) of the Act has been withdrawn and a new section 112A has been inserted in the Act to provide that long term capital gains arising from transfer of a long term capital asset being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust shall be taxed at 10 per cent of such capital

---

* The tax measures and rate changes given in this Annex are only meant for general readers and will not serve as reference points for tax payers.

gains exceeding one lakh rupees. Foreign Institutional Investors (FIIs) will also be liable to tax on such long term capital gains only in respect of amount of such gains exceeding one lakh rupees. Further, it is also provided that where any income is distributed by an equity-oriented Mutual Fund, the mutual fund shall be liable to pay additional income tax at the rate of 10 per cent on income so distributed.

- To tackle the direct tax challenges arising in digital businesses, the scope of the definition of business connection was enlarged to provide that a non-resident is taxable in India if it has a 'Significant Economic Presence' in India.
- The conditions for availing the deduction of 30 per cent under section 80JJAA of the Act have been relaxed by allowing the benefit for a new employee who is employed for less than the minimum period during the first year but continues to remain employed for the minimum period in subsequent year. The minimum period of employment of 150 days has been extended to footwear and leather industry.
- Following changes in the taxation regime for the start-ups under section 80IAC have been made:
    - ➢ The benefits would also be available to start ups incorporated on or after 1st April 2019 but before 1st April, 2021;
    - ➢ The requirement of the turnover not exceeding ₹25 Crore would apply to the previous year relevant to the assessment year to which deduction under this section is claimed;
    - ➢ The definition of eligible business has been expanded to provide that the benefit would be available if the start-up is engaged in innovation, development or improvement of products or processes or services, or a scalable business model with a high potential of employment generation or wealth creation.

B. Summary of important measures announced in the Interim Budget 2019-20:

- Enhanced the amount of tax rebate for an individual taxpayer from ₹2,500 to ₹12,500.
- Increased the limit of standard deduction from ₹40,000 to ₹50,000.
- There will be no tax on notional rent of two self-occupied houses instead of currently available one self-occupied house. However, the existing limit for deduction of interest of ₹2 lakhs shall continue.
- One-time option provided for investment of the entire capital gain in purchase or construction of two residential houses under section 54 of the Act where capital gains from the sale of residential property do not exceed ₹2 crore.
- Threshold limit for application of TDS on bank interest, etc., increased from ₹10,000 to ₹40,000 and
- Threshold limit increased for application of TDS on rental income from ₹1.8 lakh to ₹2.4 lakh.

C. Other measures taken during the year 2018 and 2019.

- The Centralised Verification Scheme, 2019 has been notified for setting up of a centre for centralised issuance of notice and for processing of information or documents and making available the outcome of the processing to the Assessing Officer.
- The process of PAN allotment has been relaxed so that an applicant, having mother as 'single parent', may apply for PAN by furnishing mother's name only. Before this, furnishing of father's name was mandatory for all applicants.
- The process of issuance of certificate for no deduction of tax or deduction/collection of tax at lower rate has been rationalised. Now, the entire process of filing of an application to the generation of appropriate certificate has been made electronic. This shall minimise the human interface and reduce the compliance burden on the applicant.
- Form for application filed for the registration of a charitable trust or institution under section 12A of the Act has been rationalised and electronic filing thereof has been enabled as well.
- Forms for filing appeal to the Appellate Tribunal have been rationalised to make them more informative.
- In order to facilitate the conversion of Indian branch of foreign bank, the Notification S.O. 6053(E) dated 06.12.2018 has been issued specifying the conditions to be fulfilled by the conversion and also specifying modifications, exceptions, etc., in applicability of certain provisions of the Act to such conversion.
- Part B of Form No 16 and Annexure-II of Form No 24Q were amended for enabling e-issuance of salary TDS certificate in Form No 16 and for enabling the pre-filing of Income-tax returns on the basis of information furnished in Form No 24Q.